

PROJECT VALIDATION ASSESSMENT
PROPOSED
FORT MONMOUTH OFFICERS' CLUB RENOVATION
SUMMARY REPORT
EATONTOWN, NEW JERSEY
22 DECEMBER 1999

HORWATH LANDAUER
HOSPITALITY CONSULTING, INC.

**PROJECT VALIDATION ASSESSMENT
PROPOSED FORT MONMOUTH OFFICERS' CLUB RENOVATION
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HORWATH LANDAUER
HOSPITALITY CONSULTING, INC.
A member of Horwath International

60 Canal Street, 2nd Floor
Boston, MA 02114
USA

Telephone (617) 720-0515
Telefax (617) 720-2426



23 December 1999

Mr. Glen Perlakowski
US Army Communications and Electronics Command
ATTN: SELFM-MWR (Mr. Glen Perlakowski)
P.O. Box 69
Russel Hall, Building 286
Fort Monmouth, NJ 07703-0069

Dear Mr. Perlakowski:

Enclosed please find four copies of the final Project Validation Assessment report for the Officers' Club at Fort Monmouth, New Jersey.

If you have any questions or concerns, please do not hesitate to contact me directly. I can be reached at (617) 720-0515, extension 318.

It has been a pleasure to be of service to the United States Army.

Sincerely,

A handwritten signature in black ink, appearing to read "Reed S. Woodworth".

Reed S. Woodworth
Director

Encl. 4

HORWATH LANDAUER
HOSPITALITY CONSULTING, INC.
60 Canal Street, 2nd Floor
Boston, MA 02114
Telephone (617) 720-0515
Telefax (617) 720-2426



22 December 1999

Mr. William Anderson
Program Analyst
Business Programs Directorate
U.S. Army Community and Family Support Center
4700 King Street, 5th floor
Alexandria, Virginia 22302-4404

Dear Mr. Anderson

In accordance with Contract Number NAFBAI-97-CD-0029, and Delivery Order Number NAFBAI-99-F-0126, Horwath Landauer (HL) has prepared this report containing our findings, conclusions, and recommendations regarding a proposed renovation of the Fort Monmouth Officers' Club located at Fort Monmouth in Fort Monmouth, New Jersey. This report includes the results of our market analysis intended to assess the operating potential of the proposed renovation, as well as our professional judgment regarding the optimal site, scope, and configuration.

The findings and conclusions presented in this report are based on estimates, assumptions, and other information developed from our research of the market, knowledge of the leisure industry, and discussions with you during which you provided us with certain information. The sources of information and the bases of the estimates and assumptions are stated herein.

The accompanying prospective financial analysis is based on estimates and assumptions developed in connection with the market study. Additionally, an investment analysis for the project was developed using a return on investment template and corresponding assumptions provided by the U.S. Army. This data is presumed to be reliable, but no responsibility, legal or otherwise, is assumed for its accuracy nor can it be guaranteed as being certain. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur. As such, actual results achieved will vary and these variations may be material.

Further, we have not been engaged to determine the effectiveness of management, and we are not responsible for future marketing efforts and other management actions upon which actual results will depend.

This report and its contents are intended solely for use by the U.S. Army, for submission to lending institutions to support applications for financing, and for submission to prospective franchising and/or management companies to generate interest in licensing or managing the Fort Monmouth Officers' Club. Otherwise, this report should not be included or quoted in any offering circular or registration statement, prospectus, sales brochure, loan, appraisal, or other agreement or document without our prior written permission. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

We appreciate this opportunity to be of service to the U.S. Army Community & Family Support Center.

INTRODUCTION

Horwath Landauer (HL) was engaged to analyze the market and financial feasibility of renovating the Officers' Club at Fort Monmouth, New Jersey. We have analyzed the supply of and demand for programs at the Fort Monmouth Officers' Club to assess anticipated future market conditions and to make appropriate recommendations pertaining to the proposed project. Our underlying assumptions include the following:

- The Officers' Club at Fort Monmouth will be operated by an experienced manager and support staff;
- The eligible military population in the Monmouth area will remain relatively stable throughout the analysis period;
- Members will be authorized to sponsor family members and guests as users of the Officers' Club;
- The fee structure implemented for the Officers' Club will grow from year to year at a rate that is comparable to inflationary increases in operating expenses; and,
- A comprehensive program of maintenance, repair and periodic replacement will be instituted for the recommended facilities.

EXECUTIVE SUMMARY

The Fort Monmouth Officers' Club is located approximately three miles from the entrance of the base, and is surrounded by an 18-hole golf course. Approximately 2.9 miles to the east is State Road 35, is a major thoroughfare along which extensive retail development exists. The Club is within walking distance of several military housing communities. Currently, the Fort Monmouth Officers' Club contains semi-public dining facilities, a large ballroom suitable for holding several functions simultaneously, deck, lounge, swimming pool and tennis courts. The Fort Monmouth Officers' Club was built in 1926 as the clubhouse for a private country club. In the 1940's, the building and grounds was acquired by the U.S. Army and subsequently converted into a club and military golf course.

The present layout of the club reflects its origin, as it is not configured well for public use. The club is comprised of several small rooms, inadequate restroom facilities, narrow staircases, and a poorly designed kitchen. Current kitchen layout and storage is a significant impediment to the amount and quality of food and beverage service the club can provide. In addition, several other issues are of concern when considering a renovation of the kitchen area. These issues include ingress and egress from the kitchen with respect to the dining areas, presence of lead based paints and asbestos, and handicap accessibility. Current fire protection systems are also questionable. The original project request submitted by the installation was for a complete renovation to the kitchen and restroom facilities, as well as provides handicap accessibility, lead based paint abatement and various site improvements. The estimated project cost, according to the DD Form 1391 dated 15 May 1998, was \$1,000,000.

Based on our research and analysis, Horwath Landauer has determined that insufficient cash flow from operations exists to justify this largely maintenance and repair based project. Though the club has certainly captured a moderate amount of food and beverage demand (mostly catering) in the past, the overall profitability of the program has been marginal. There appears to be some potential for capturing more catering demand, however an expansion of the existing ballroom would be required. Considering just the amount of capital required to just remedy the problems in the kitchen and bathrooms (which this report will define), this project is not even remotely financially feasible. Our investment analysis using the Return on Investment (ROI) Template provided by USACFSC determined that the ROI for the project, using the total project cost, would be -1.1 percent with a net present value of (\$1,395,000). When considering just the NAF portion of the project cost, the ROI is -0.4 percent with a net present value of (\$1,133,000). It should be noted that our analysis utilized the full analysis cash flow available from the operation, which means that no more cash flow would exist to validate any future capital improvement projects to repair and/or improve other parts of the facility that are certain to occur.

It is clearly unfortunate, given the historical value and character of the present facility, that this recommendation becomes necessary. It is equally clear that continued investment in this facility is wholly imprudent. The age and configuration of the building are something that cannot be corrected without either substantial sums of money (which would never prove financially

feasible), or complete demolition and reconstruction of the structure. Loss of the Officers' Club at Gibbs Hall would certainly impact the Fort Monmouth community. However, with the availability of Lane Hall, a younger and arguably better located facility on the main post, the post will continue to have a club program offering a la carte and special function food and beverage supporting the community. Future capital investment in Lane Hall appears far more prudent, given the limited availability of central funding, than spending additional capital at Gibbs Hall.

The following points summarize our principal findings, conclusions, and recommendations in greater detail:

- The Fort Monmouth Officers' Club is a moderately well utilized facility in a unique location relative to its competitors. The profitability of the program, however, is significantly impaired by the poor facility configuration and limited functionality of the existing kitchen.
- The Fort Monmouth work population is predominantly civilian resulting in a less captive audience for the club. A sizeable military retiree population in the region helps ease this problem, as this market segment has traditionally been a devoted user of club facilities.
- Membership is not actively solicited among active duty military personnel. This, combined with the lack of representation at the Newcomer's club and scarce marketing efforts, appears to contribute to poor awareness of the club within the military community.
- Dues for membership range between \$16 and \$18 per month with no initiation fee. The monthly dues rate has not increased in several years.
- The dining room is open to the members and non-members, alike, for lunch. On the average there are between 60 and 100 patrons per day during the lunch operation with an average check of \$6.50. Conversely, dinner is not well supported with an average of 30 patrons per evening and an average check of \$10. The one exception to evening usage is Tuesday's Beef and Burgundy theme night, which usually attracts in excess of 100 persons.
- The club is primarily utilized for private functions. While the basic pricing structure of the club is comparable to competitors, the club is not required to tax its products and services which makes it an attractive alternative. Multiple simultaneous functions are typical and turnaway is not uncommon due to space limitations of the facility.
- The club currently features lunch Monday through Friday and Brunch on Sunday. Dinner is offered Tuesday through Saturday. Beef and Burgundy on Tuesday Night, and Sunday Brunch appear to be the most popular meals offered at the club.

- Approximately 40 percent of the users on Monday and Friday lunch are retirees; the remaining percentage is represented by the general workforce and active duty. Tuesday and Thursday lunches are characterized by an even split between retirees and the general workforce. The typical profile for Sunday brunch is 70 percent retiree, 20 percent active duty, and 10 percent civilian. The club allows non-military patrons to hold special functions at the club with sponsorship by a member. It should be noted that any change in this policy would have a significant impact on the demand for this facility and consequently negatively impact the overall operating potential.
- The greatest competition for the Fort Monmouth Officers' Club consists of restaurant and meeting facilities located along the US 35 corridor.
- Focus groups were conducted with existing and potential users of the Fort Monmouth Officers' Club. The results of this consumer preference research revealed a number of important issues related to the proposed project. The principal findings are as follows:
 - Results from our demand research indicate that the club does not market itself among potential military members and that awareness of the facility and its offerings is limited.
 - The enlisted participants who were non-members indicated that they had attended private functions at the club and were satisfied with the food and service. Members that frequently attended and/or sponsored functions were satisfied with the food considering the strain large functions put on the kitchen. All groups expressed concerns with the inadequate restroom facilities.
 - Junior grade officers expressed that the club was perceived as a club for retirees.
 - Military personnel that are not current users of the club indicated that they did not use the facility because membership is not as encouraged as it is on military-dominated bases.
 - The existing location of the Fort Monmouth Officers' Club is convenient to the military housing and base.
 - Clearly the most interested and vocal user group were the representatives from the local community. To them, the facility is an essential location for meetings and special events sponsored by local interest associations such as the Boy Scouts, United Way AARP and others. Participants in this group indicated that affordable function space is non-existent in the immediate area surrounding Fort Monmouth.

- A cost estimate and revised scope was prepared by Austin Construction. Though the scope was different than what we recommended, it is not materially different relative to the evaluation of overall viability of the project. Accordingly, we have used their cost estimate in our investment analysis. Austin determined that the cost of renovating and repairing the kitchen, as well as relocating and expanding the public restrooms, would cost an estimated \$2,270,000. It is critical to note, however, that this cost estimate does not include any kitchen equipment, installed or otherwise, nor does it cover asbestos and lead paint abatement. Other missing items include, but are not limited to, the likelihood of refurbishing the men's locker room located beneath the kitchen due to the kitchen floor substructure replacement. These other costs must be considered in any prudent investment analysis.
- When projecting future utilization and financial performance of the Fort Monmouth Officers' Club, we increased the food and beverage revenue generated by catering and special functions and kept revenue from a la carte programs consistent with historical performance. Given the scope of the project, we anticipate that function attendees will perceive the greatest improvement in service and food quality due to the reconfigured and upgraded kitchen. A la carte diners are not as likely to reap material gains from these improvements. Labor expense will likely see some improvement due to the improved kitchen, as will utilities. Other expense categories are likely to remain the same.
- Based on the results of our market analysis and the resultant prospective financial analysis, the following net present value (NPV), internal return on investment (ROI), and payback for the proposed project have been calculated using the U.S. Army Community & Family Support Center's Nonappropriated Fund (NAF) Major Construction Template.

	Total Project Cost	NAF Project Only
Net Present Value	(\$1,394,682)	(\$1,132,777)
Internal Rate of Return	-1.05%	-0.35%
Payback Period by Operating Year		
Initial Investment	Year 15	Year 13
Initial Investment and Renovations	Year 23	Year 21
Initial Investment, Renovations & CPMC	> Year 30	> Year 30

The following report sections provide detailed descriptions of the findings from our analysis.